

Rhodes ANNUAL REPORT

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1965

Rhodes

DIRECTORS AND OFFICERS:

HERBERT I. DUNN
Partner, Schwabacher & Company
J. C. ERNST
JOHN J. GOLDBERG
Assistant Secretary
O. JAMES MAUEL
ELLIOTT McALLISTER
Director, The Bank of California, N.A.
LEE G. PAUL
Partner, Paul, Hastings, Janofsky & Walker

JOHN J. REILLY
Chairman of the Board
JOHN J. REILLY, JR.
President
LINDSAY L. RUSCH
Vice President
Secretary and Treasurer
F. A. WICKETT

LEGAL COUNSEL:

Steinhart, Goldberg, Feigenbaum & Ladar

TRANSFER AGENT:

Crocker-Citizens National Bank
1 Montgomery Street
San Francisco, California

PUBLIC ACCOUNTANTS:

Price Waterhouse & Co.

REGISTRAR:

Wells Fargo Bank
464 California Street
San Francisco, California

ANNUAL STOCKHOLDERS MEETING:

Tuesday, April 26, 1966, 11:00 o'clock A.M.
Rhodes-Oakland, Executive Offices, 1501 Broadway, Oakland, California

TO OUR SHAREHOLDERS

Rhodes had sales of \$65,974,224 in 1965, an increase of 3.8% over the \$63,544,037 reported for 1964. Net profit for the fiscal year was \$1,088,285, equal to \$1.33 a share on the common stock, after payment of preferred dividends. Profit compared with \$859,619, or \$1.01 a common share, in 1964.

In October of the past year we opened our 13th store in the Coronado Shopping Center, Albuquerque, New Mexico. We are pleased to report that sales since the opening have exceeded our estimates. With the addition of the Albuquerque store, Rhodes now has approximately 2,000,000 square feet of store area in six western and southwestern states.

The opening of our Albuquerque store completes the second phase of our program of expansion into the suburbs. We have no new store locations to open in 1966; however, we will continue our program of remodeling our older stores to maintain the standard of Rhodes. The remodeling of our Tacoma fashion floor will be completed this year and the modernization of our Concord store will begin in the near future.

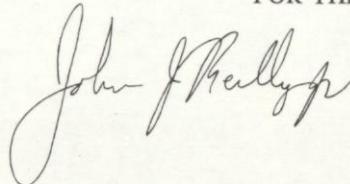
Rhodes now has six stores in California, two in Washington, two in Oregon, one in Arizona, one in Texas and one in New Mexico. A review of our store locations is presented on Pages 2 and 3 of this report.

During 1965, Rhodes paid four regular quarterly dividends of 25 cents per share on common stock, in addition to preferred dividends. Retained earnings on January 31, 1966, totaled \$14,263,268.

We are pleased to announce that Mr. Lee G. Paul of Los Angeles has been elected to the board of directors.

A department store is a complex operation; to be successful requires many people working together smoothly and efficiently. We are fortunate to have in the Rhodes organization a strong, loyal staff constantly striving to improve our service and operations. Although not listed on the balance sheet, the people of Rhodes are our most valuable asset. To them and to our customers, and suppliers, we extend thanks for the support they have given Rhodes.

FOR THE BOARD OF DIRECTORS:



JOHN J. REILLY, JR.
PRESIDENT



JOHN J. REILLY
CHAIRMAN

RHODES COUNTRY

From a beginning of three downtown stores, Rhodes since 1954 has steadily pushed out into the suburbs, where most population growth has occurred. Our expansion program in the past 11 years has made Rhodes a dominant store in each of ten large regional shopping centers. All of the centers are in rapidly developing suburban areas which possess the dynamics of future growth. To review our locations...



TACOMA *Downtown*: The Rhodes' name originated with our seven-story downtown store in Tacoma, the city's leading department store with its own modern four level parking area. We stand to benefit greatly from Tacoma's urban renewal program. This program will transform the downtown district into a landscaped area of plazas, parks, malls and overpasses, served by ten major parking facilities. Tacoma is the site of several large military installations which house 50,000 servicemen and dependents. The busy, deepwater port of Tacoma on Puget Sound is developing a 2,000 acre industrial park for new industries.

TACOMA *Lakewood*: Ten miles south of downtown Tacoma is Rhodes-Lakewood, the largest department store in the 51 acre Villa Plaza Shopping Center, the biggest center in the area. Villa Plaza has 310,000 square feet of shops and parking for 5,000 cars. Since the center opened in 1957, it has added 145,000 square feet of shopping area. Rhodes' 72,000 square feet store serves an area of attractive homes and great natural beauty, surrounded by five lakes.

PORTLAND *Downtown*: Rhodes-Portland dates back to its founding in 1851. The five-story building in downtown Portland covers an entire city block and provides 240,000 square feet of floor space. Continued remodeling keeps it fresh and contemporary in appearance and spirit. The metropolitan shopping area it serves has a population of nearly 900,000. Tourism is a major industry, with the annual Rose Festival the principal attraction. Portland is one of the busiest seaports on the West Coast. Industry is well diversified, with electronics of growing importance.

PORTLAND *Gateway*: Rhodes-Gateway is in the 30 acre Gateway Shopping Center, which has 260,000 square feet of shopping area and parking for 4,000 cars. Gateway is ten minutes from downtown on the major East-West Freeway. The proposed North-South Freeway will intersect the East-West Freeway at Gateway, thus increasing the convenience of shopping in the area. Hundreds of apartment units and homes have been built near the center in the past several years, further enlarging the market.

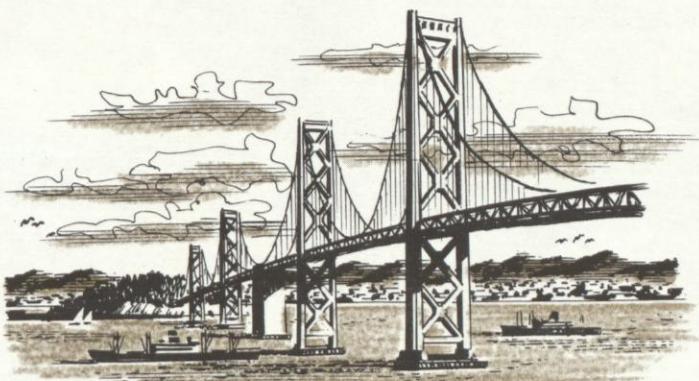


SACRAMENTO *Country Club Centre*: In 1954, Rhodes began its expansion into the suburbs by opening a store in the 40 acre Country Club Centre. Rhodes' 145,000 square feet store is 8 miles northeast of downtown Sacramento, in the area which has had the greatest growth. The intersection where the center is located is the busiest in the Sacramento area with a count of 50,000 cars a day. Recently, parking has been increased to 4,200 autos. New businesses in the 461,000 square feet shopping area included a fashion apparel store, a 50,000 watt radio station and a large new restaurant. A new freeway to open soon and off-ramps from the Interstate Highway system will improve access further.

SACRAMENTO *Southgate*: Rhodes-Southgate serves 60,000 families in south metropolitan Sacramento, where population has grown 25% in the past five years. The 60 acre Southgate Shopping Center has 340,000 square feet of floor space and parking for 4,500 cars. It is six miles from downtown Sacramento with easy freeway access. An expanded freeway system to be completed in 1967 will provide swift access from all Sacramento points.



FRESNO: Our 110,000 square feet store in the 40 acre Manchester Shopping Center is three miles north of downtown Fresno. Manchester, which has 446,000 square feet of shopping space, is near the geographical center of the Fresno area where retail trade is focused. It is surrounded by the city's better residential districts. Fresno serves a market area of 405,000 people and the county is the richest in the nation in agricultural production. A new community arts center, a community theater and a philharmonic orchestra have enriched the city's cultural life.



OAKLAND: Rhodes-Oakland is the largest store in the Rhodes group. The seven-story building is at the junction of three main traffic arteries. It adjoins one of the two proposed downtown subway stations and related parking facilities of the 75-mile San Francisco Bay Area Rapid Transit system. Oakland in 1965 experienced a multi-story building boom that exceeded \$125 million. More than one-third of the investment was in the core of the city, much of it in the form of apartment buildings. In the past 10 years, nearly \$500 million has been invested in Alameda County industry, highest in the Bay Area. Oakland is the home of the world's largest naval supply depot, the largest military aircraft overhaul and repair facility in the U.S. and of Oakland Army Terminal, base for Army shipments to the entire Pacific region.

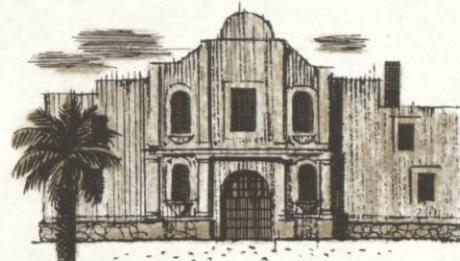
PALO ALTO: Rhodes-Palo Alto is located at the juncture of the cities of Palo Alto, Mountain View and Los Altos at the southern end of the San Francisco Peninsula. The region is a national center for the aerospace and electronics industries and is the home of Stanford University. Since Rhodes opened its 130,000 square feet store in the 42 acre San Antonio Shopping Center, it has been joined by 18 other tenants and a 600 seat restaurant. The past two years have seen extensive apartment house building in the immediate area. The center is located at one of the busiest intersections on the Peninsula. A new expressway is under construction to speed traffic circulation in the vicinity of San Antonio Center.

CONCORD: The Diablo Valley, which extends from Mt. Diablo to the Berkeley Hills, has been the scene of rapid residential development in recent years. The population of this region, including Concord, Walnut Creek, Pleasant Hill is estimated at 200,000. Rhodes-Concord, in a 35 acre shopping center, is situated in the heart of this population growth. The area which Rhodes serves is home to many young families. There are now 81 elementary, secondary and high schools and one junior college in Diablo Valley.



PHOENIX: Since the opening of Rhodes-Phoenix in 1963, a number of leading specialty shops have entered the Camelback shopping area. The 50 acre Camelback Shopping Center is seven miles from downtown, midway between Phoenix and Scottsdale. Access to the center will be further improved by plans for a new North-South freeway off-ramp directly behind it. Maricopa County, of which Phoenix is the population center, has grown four times as fast as the nation, from 332,000 in 1950 to nearly 900,000 today.

ALBUQUERQUE: Our newest store opened in October of the past year in colorful and historic Albuquerque, New Mexico. The city has shown a phenomenal rate of growth from 35,000 in 1940 to 245,000 in 1965. Metropolitan Albuquerque now has approximately 310,000 people. About 85% of the city's growth in the 1958-1964 period has been in the Northeast Heights area where the 40 acre Coronado Shopping Center and Rhodes' 115,000 square feet store are located, 6½ miles from downtown. The center is served by the new Coronado Freeway.



SAN ANTONIO: Rhodes-San Antonio has entered its third year of operation in 52 acre Wonderland Shopping City. Since the center opened five years ago, the shopping area has been increased from 550,000 to 732,000 square feet to accommodate new tenants. The most significant development was the selection of a site for the South Texas Medical Center a short distance from Wonderland. The three facilities already contracted for will employ about 2,000 people, and additional units are planned. San Antonio's exciting HemisFair, an exhibit of the arts and industries of the Western Hemisphere, is expected to attract several million people in 1968.

RHODES BALANCE SHEET

ASSETS	January 31 1966	January 31 1965
CURRENT ASSETS:		
Cash and short-term securities	\$ 3,214,845	\$ 3,344,649
Accounts receivable, less allowance for doubtful accounts— 1966, \$533,000; 1965, \$524,000	14,168,020	13,574,239
Merchandise inventories—on hand, at lower of cost or market as determined by the retail inventory method; in transit, at cost	13,040,829	12,114,756
	<u>30,423,694</u>	<u>29,033,644</u>
OTHER ASSETS AND DEFERRED CHARGES:		
Unexpired insurance, prepaid taxes and other deferred expenses	656,228	625,723
Miscellaneous receivables, deposits, etc.	339,007	473,898
	<u>995,235</u>	<u>1,099,621</u>
PROPERTIES, at cost:		
Land	129,991	129,991
Furniture, fixtures, equipment, etc.	6,565,008	6,633,698
Leasehold improvements	4,348,261	4,341,673
Accumulated depreciation and amortization	(7,295,531)	(6,924,765)
	<u>3,747,729</u>	<u>4,180,597</u>
	<u>\$35,166,658</u>	<u>\$34,313,862</u>

See notes to financial statements

LIABILITIES	January 31 1966	January 31 1965
CURRENT LIABILITIES:		
Accounts payable	\$ 3,544,567	\$ 2,906,947
Payrolls, taxes and other accrued liabilities	957,052	904,794
Current instalment on note payable	500,000	500,000
Federal taxes on income, estimated	717,063	518,528
	<hr/> 5,718,682	<hr/> 4,830,269
Accumulated income tax reductions (Note 1)	<hr/> 1,560,000	<hr/> 1,340,000
Total current liabilities including accumulated income tax reductions	<hr/> 7,278,682	<hr/> 6,170,269
LONG-TERM NOTE—		
5%, payable \$500,000 annually; balance due March 1, 1981 . . .	<hr/> 8,000,000	<hr/> 8,500,000
STOCKHOLDERS' EQUITY:		
Cumulative preferred stock, par value \$100 per share, authorized 100,000 shares; issued and outstanding 30,000 shares, 5%, designated as Series A Preferred (Note 2) . . .	3,000,000	3,000,000
Common stock, par value \$.25 per share—authorized 1,200,000 shares; represented by 709,338 issued shares of which 3,778 shares were held in Treasury on January 31, 1966 (Notes 2 and 3) . . .	177,334	176,922
Capital in excess of par value of common stock (Note 3)	2,447,374	2,436,644
Retained earnings, per accompanying statement (Note 2)	14,263,268	14,030,027
	<hr/> 19,887,976	<hr/> 19,643,593
	<hr/> \$35,166,658	<hr/> \$34,313,862

See notes to financial statements

RHODES STATEMENT OF INCOME

	Year ended January 31 1966	Year ended January 31 1965
Net sales including leased departments	\$65,974,224	\$63,544,037
Cost of sales	43,851,081	42,096,772
Selling, operating and administrative expenses, less credit service charges	19,025,142	18,781,129
Depreciation and amortization	693,519	750,252
Contributions under employee benefit plans	268,588	212,640
Interest expense	427,085	438,360
	<u>64,265,415</u>	<u>62,279,153</u>
	<u>1,708,809</u>	<u>1,264,884</u>
Other income	169,476	154,735
Income before federal income taxes	<u>1,878,285</u>	<u>1,419,619</u>
Provision for estimated federal income taxes (Note 1)	570,000	470,000
Provision relating to use of instalment basis for tax purposes (Note 1)	<u>220,000</u>	<u>90,000</u>
	<u>790,000</u>	<u>560,000</u>
Net income for the year	<u><u>\$ 1,088,285</u></u>	<u><u>\$ 859,619</u></u>

STATEMENT OF RETAINED EARNINGS:

Retained earnings at beginning of year	\$14,030,027	\$14,091,651
Net income for the year	1,088,285	859,619
	<u>15,118,312</u>	<u>14,951,270</u>
Less:		
Cash dividends paid:		
Preferred stock	150,000	150,000
Common stock	705,044	704,428
Cost of treasury stock purchased	66,815	
Retained earnings at end of year (Note 2)	<u><u>\$14,263,268</u></u>	<u><u>\$14,030,027</u></u>

Notes to Financial Statements, January 31, 1966

NOTE 1: ■ The Company for financial statement purposes reports income at the time the sale is made, whereas it follows the instalment method of reporting income for tax purposes. The use of the instalment method allows the Company to defer the recognition of income, which has the effect of reducing current tax burdens with the corresponding conservation of cash resources for other use in the business. Provision equivalent to the current net tax reduction is included in the income statement and the accumulated tax reduction is set forth separately in the balance sheet. In the absence of changed conditions, the cash conserved by use of the instalment method for tax purposes will be retained for use in the business indefinitely. The accumulated tax reduction which was shown as other than a current liability in last year's balance sheet has been reclassified as a current liability with no effect on net earnings.

The Company follows the flow-through method of accounting for the investment tax credit provided by the Revenue Acts of 1962 and 1964. The provision for federal income taxes for the years ended January 31, 1966 and January 31, 1965 have been reduced by \$112,000 and \$118,000, respectively, representing the investment tax credit for the year.

NOTE 2: ■ The Series A Preferred can be redeemed at (or is entitled to receive in the case of voluntary liquidation) \$105 per share on or before June 1, 1970, such amount decreasing ratably to \$100 per share on June 1, 1979, plus any unpaid and accumulated dividends. The Company is required to make payments into a sinking fund on June 1 of each year of \$125,000 for years 1969-1973, \$175,000 for years 1974-1978 and \$300,000 for years 1979-1983 less amounts equal to the par value of Series A Preferred purchased or redeemed. Sinking fund payments are to be used to purchase or redeem Series A Preferred at prices not exceeding the par value thereof. In addition, certain restrictions are placed on the payment of cash dividends; retained earnings at January 31, 1966 not so restricted were \$981,565.

The purchaser of the Series A Preferred was granted a warrant which expires June 1, 1973 entitling the holder to purchase 20,000 shares of common stock at \$22.50 per share. At January 31, 1966, 20,000 unissued common shares were reserved for this purpose.

NOTE 3: ■ During the year 893 shares of common stock which had been previously sold to employees were surrendered to the Company in accordance with the conditions of the purchase plan. The cost of the surrendered shares, totaling \$16,290, was deducted from capital in excess of par value.

Because of the changes incorporated in the Revenue Act of 1964, the Company does not plan to grant further stock options under the incentive stock option plan adopted in 1959. Under the 1959 plan options outstanding at January 31, 1965 amounted to 11,940 shares. During the year options for 1,650 shares were exercised at \$16.25 per share, and options for 6,015 shares were cancelled. Options outstanding at January 31, 1966 of 4,275 shares were granted in 1962 and 1963 at \$16.625 and \$17.93 per share and are exercisable ratably over a four-year period commencing two years from date of grant.

The Board of Directors adopted a Qualified Stock Option Plan which became effective May, 1965, subject to approval of the plan by the Company's shareholders within one year of the plan's effective date. The 1965 plan reserves 30,000 shares of unissued common stock for options to be granted at prices equal to the fair market value at the date of grant. During 1965, no options were granted pursuant to the 1965 plan.

NOTE 4: ■ The Company occupies its thirteen stores under leases which expire at various dates from 1972 to 1994. The leases provide for rentals based on sales with a guaranteed minimum and in certain instances require payment of property taxes, insurance and certain other expenses, which in general may be deducted from rents paid in excess of the minimum. The terms of leases covering nine stores may be extended at the option of the Company. In addition, fixtures in four stores are covered by leases which expire at various dates from 1973 to 1975. Total rentals of \$2,900,000 were charged to operating expenses in 1965. The minimum annual rental commitments for 1966 are \$2,900,000.

Opinion of Independent Accountants

To the Board of Directors and Stockholders of Rhodes Western

In our opinion, the accompanying balance sheet and related statements of income and retained earnings present fairly the financial position of Rhodes Western at January 31, 1966, and the results of its operations for the year then ended, in conformity with generally accepted accounting principles applied on a basis consistent with that of the preceding year. Our examination of these statements was made in accordance with generally accepted auditing standards and accordingly included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

San Francisco, March 10, 1966

PRICE WATERHOUSE & CO.

RHODES TEN YEAR SUMMARY OF OPERATIONS

<i>Years Ended January 31</i>	<i>1966</i>	<i>1965</i>	<i>1964</i>	<i>1963</i>
Net sales	\$65,974,224	\$63,544,037	\$56,948,324	\$50,044,477
Income before federal income taxes	1,878,285	1,419,619	1,789,495	2,462,718
Federal income taxes	790,000	560,000	715,000	1,260,000
Net income	1,088,285	859,619	1,074,495	1,202,718
Per common share	1.33	1.01	1.49	1.72
Dividends paid				
Preferred stock	150,000	150,000	25,000	
Common stock	705,044	704,428	701,882	700,221
Per common share	1.00	1.00	1.00	1.00
Additions to properties	261,794	358,712	1,024,529	425,961
Depreciation and amortization	693,519	750,252	633,250	785,054
Accounts receivable	14,168,020	13,574,239	13,026,294	10,804,115
Merchandise inventories	13,040,829	12,114,756	12,176,226	10,019,604
Working capital	23,145,012	22,863,375	19,963,852	17,086,704
Properties, net	3,747,729	4,180,597	4,572,137	4,180,858
Total assets	35,166,658	34,313,862	31,685,664	27,440,462
Long-term debt	8,000,000	8,500,000	6,000,000	6,000,000
Stockholders' equity	16,887,976	16,643,593	16,594,730	16,212,781
Per common share	23.94	23.61	23.63	23.15
<i>At year end:</i>				
Shareholders, common stock	1,786	1,904	1,917	1,994
Employees	2,665	2,552	2,467	2,200
Stores in operation	13	12	11	9

1962	1961	1960	1959	1958	1957
\$46,035,273	\$45,516,456	\$46,069,861	\$40,704,446	\$41,021,658	\$37,726,906
2,295,074	2,410,895	3,201,566	2,475,662	2,100,990	2,721,542
1,190,000	1,250,000	1,675,000	1,270,000	1,085,000	1,405,000
1,105,074	1,160,895	1,526,566	1,205,662	1,015,990	1,316,542
1.58	1.66	2.19	1.72	1.45	1.88
699,808	700,710	595,321	556,816	699,872	559,622
1.00	1.00	.85	.80	1.00	.80
506,198	901,837	1,197,153	543,427	965,169	1,007,337
834,802	802,213	751,554	625,280	624,438	417,545
3,249,488	9,628,071	9,542,428	8,944,980	8,835,662	9,181,894
8,866,276	8,678,698	7,745,446	6,713,753	6,172,264	6,001,386
16,595,316	16,621,038	16,787,803	16,823,246	14,471,617	12,479,145
4,539,951	4,873,740	4,771,203	4,322,557	4,450,695	4,118,654
26,775,009	26,109,278	27,137,693	26,428,226	23,048,074	21,235,724
6,440,000	6,880,000	7,320,000	7,760,000	6,200,000	4,200,000
15,696,893	15,323,788	14,786,624	13,922,368	13,255,804	12,958,242
22.45	21.85	21.23	19.89	18.97	18.51
2,000	2,135	2,042	2,013	2,038	1,959
2,093	2,050	2,069	1,868	1,863	1,677
9	9	8	7	7	5

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